The National Income, 1929-32

OUR economic system carries on two types of processes at the same time. It produces commodities and services of utility to consumers, and it distributes incomes to those contributing to the productive processes. These incomes form the purchasing power with which the products are acquired. Thus the flow of economic goods and of incomes goes on continuously. The measurement of these two activities, either the total of goods and services produced, or of incomes distributed, is called the national income. In periods of relative stability, the measurements on the two bases are approximately equal, but in times of considerable fluctuation in economic activity, they may be quite dissimilar.

National Income, Paid Out and Produced

Item	Millions of dollars				Percentages of 1929		
	1929	1930	1931	1932	1930	1931	1932
Income paid out	81,040	75,438	63,289	48,952	93.1	78.1	60.4
Business savings or losses	1,998	−4,955	−8,639	−10,603			
Income produced	83,037	70,484	54,652	38,349	84.9	65.8	46.2
U.S. Bureau of Labor Statistics cost of living index					97.4	88.9	80.4
U.S. Bureau of Labor Statistics wholesale price index					90.7	76.6	68.0

NOTE.—Subject to minor corrections.

The detailed measurement of the national income over a period of time provides an indication of the functioning and development of the economic system. When studied in detail, the estimate indicates not only the general trend, but shifts as among the various industries and the comparative payments made by industry for the different types of productive effort and facilities utilized.

During the past few years, the United States in common with most other countries has experienced a marked recession of business activity from the high tide of 1929. Consequently, estimates of the final net product of industry in the form of income have become of special importance as an indication of the extent of the contraction and its impact upon the various industries and occupations and upon the different factors of production.

National Income Paid Out, By Types of Payments

Item	Millions of dollars				Percentages of 1929		
	1929	1930	1931	1932	1930	1931	1932
Salaries (selected industries) [1]	5,702	5,660	4,738	3,382	99.3	83.1	59.3
Wages (same as in line 1) [1]	17,180	14,209	10,541	6,839	82.7	61.4	39.8
Salaries and wages (all other industries)	29,129	27,902	24,759	20,367	95.8	85.0	69.9
Total labor income [2]	52,867	48,688	41,027	31,595	92.1	77.6	59.8
Dividends	5,963	5,795	4,311	2,590	97.2	72.3	43.4
Interest	5,687	5,826	5,662	5,506	102.4	99.6	96.8
Total property income [3]	12,215	12,238	10,508	8,489	100.2	86.0	69.5
Net rents and royalties	3,835	3,237	2,494	1,691	84.2	65.0	44.1
Entrepreneurial withdrawals	12,121	11,275	9,259	7,181	93.0	76.4	59.2
Total entrepreneurial income	15,956	14,512	11,753	8,872	91.0	73.7	55.6
Total income paid out	81,040	75,438	63,289	48,952	93.1	78.1	60.4

[1] Include mining, manufacturing, construction, steam railroads, Pullman, railway express, and water transportation.
[2] Includes also employees' pensions and compensation for injury.
[3] Includes also net balance of international flow of property incomes.
Note.—Subject to minor corrections.

The total income distributed to individuals, according to a recent study [1] amounted in 1929 to 81 billion dollars. By 1932 this had declined to 49 billions, a drop of 40 percent. The total income produced in terms of goods and services amounted to about 83 billion dollars in 1929 and declined drastically to 39 billion dollars, about 54 percent in the 4-year period.

The estimates of income produced and, therefore, the net differences between this item and the amount distributed by economic enterprises, are subject to a considerably larger margin of error than the data for income paid out. However, some significant conclusions are tentatively indicated by these estimates. In 1929 the difference between the flow of production and the flow of income distributed amounted to nearly 2 billion dollars in favor of income produced, indicating that this amount was retained by business enterprises in the form of surplus and additions to assets. In subsequent years, however, industry paid out into the various income streams an amount that was in excess of the net value created under the above definition. By 1932 the amount paid out in excess of the income produced had mounted to over 10 billion dollars. In other words, in large areas of the economic system, enterprises paid out in wages, dividends, interest, rents, and the like, more dollars than they received for the goods and services which they produced. Such with-

Income Paid Out, by Industrial Divisions

Item	Millions of dollars				Percentages of 1929		
	1929	1930	1931	1932	1930	1931	1932
Agriculture	6,361	5,720	4,517	3,459	90.0	71.0	54.3
Mining	2,123	1,779	1,278	837	83.8	60.2	39.4
Electric light and power and gas	1,306	1,503	1,461	1,216	115.1	111.9	93.1
Manufacturing	18,157	16,141	12,490	8,373	88.9	68.8	46.1
Construction	3,135	2,825	1,896	864	90.1	60.5	27.6
Transportation	6,660	6,202	5,236	4,020	93.1	78.6	60.4
Communications	912	943	887	797	103.4	97.3	87.4
Trade	11,238	10,424	9,103	7,326	92.8	81.0	65.2
Finance	10,060	9,278	7,948	6,144	92.2	79.0	61.1
Government	6,456	6,763	6,792	6,797	104.8	105.2	105.3
Service	8,643	8,198	6,959	5,434	94.9	80.5	62.9
Miscellaneous	6,283	5,913	4,913	3,804	94.0	78.1	60.5
Total					93.1	78.1	60.4

NOTE.—Subject to minor corrections.

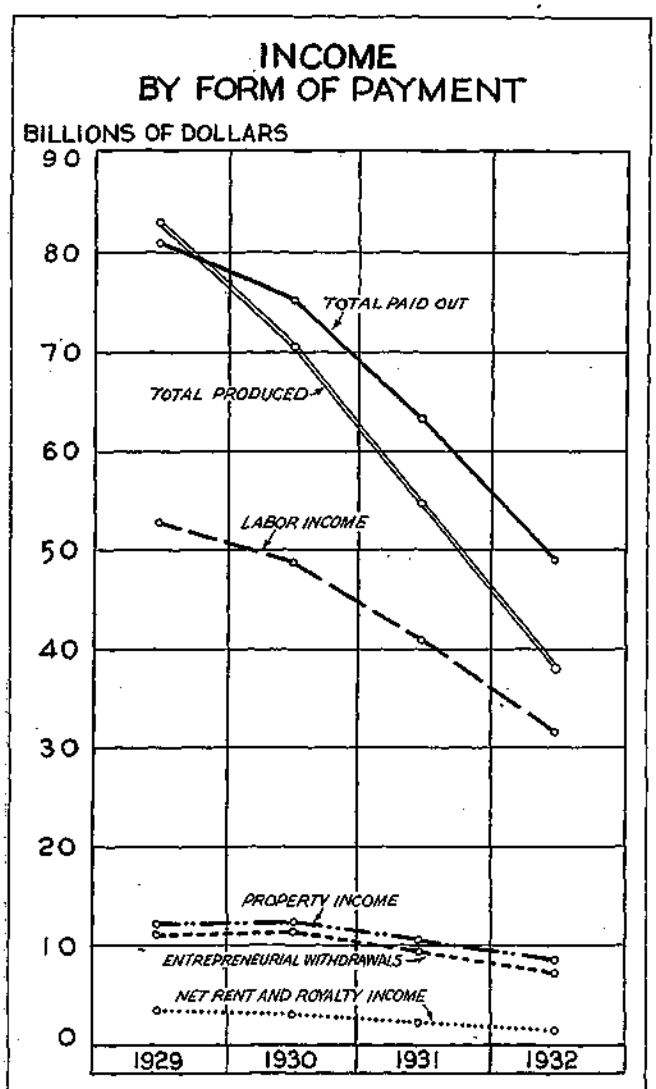
[1] Prepared for the United States Senate by the Bureau of Foreign and Domestic Commerce, with the cooperation of the National Bureau of Economic Research. The 1932 data are preliminary. The estimates here presented are, insofar as possible, for the Continental United States. Certain items that might be classified as income under concepts other than those employed by the investigators have been excluded from the totals presented, i.e., imputed income from ownership of durable goods (including owned homes), the imputed value of services of housewives and other members of the family, earnings from odd jobs, relief and charity, earnings from illegal pursuits, and changes in value of assets not derived by groups professionally occupied in the handling of assets.

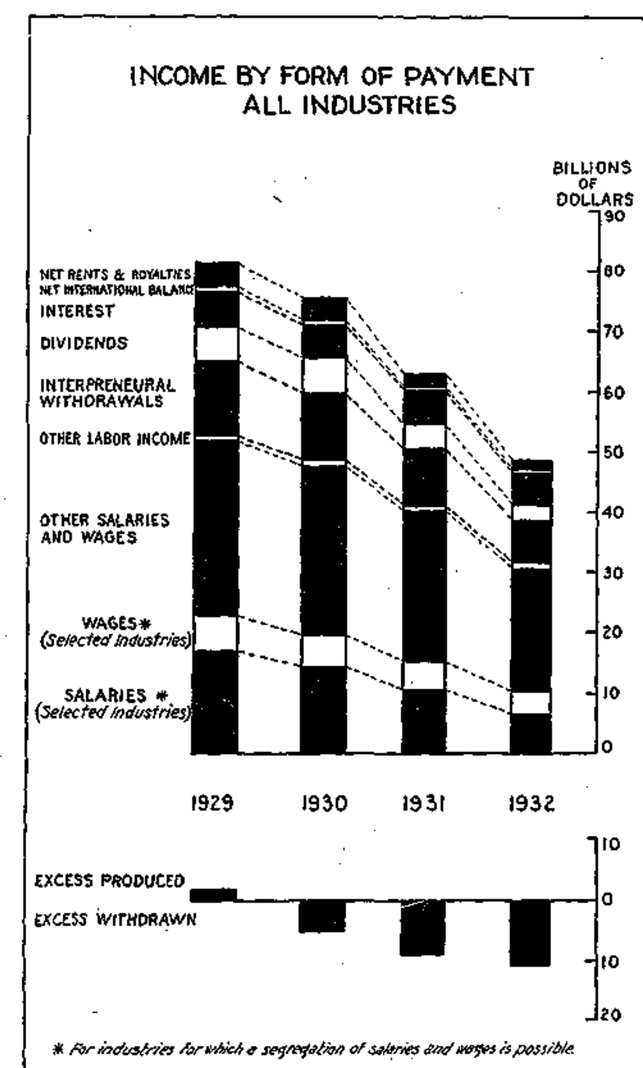
drawals represent a draft upon previously accumulated surplus and assets and are possibly derived in part from the creation of new debt obligations, which would be in effect a withdrawal currently of anticipated future income. For corporations alone the excess paid out amounted to about 7 billion dollars; this was almost three times the net dividends paid and the major portion must, therefore, have gone to sustain other payments, such as salaries and wages and interest.

There was, even in 1929, a considerable difference between the various industries in the extent to which they were accumulating reserves or making income payments in excess of current income produced. The manufacturing industry and agriculture led in the accumulation made in 1929, while finance and mining distributed net amounts greater than the sums of income each produced in that year. In 1932 the greatest volume of payments in excess of amounts of income created during the year were made by the manufacturing, agricultural, trade, and finance industries.

The extraordinary extent of the contraction in distributed income in the 3 years subsequent to 1929 can be only partially accounted for by money value fluctuations. When a rough allowance is made for the price factor by correcting for the fall in purchasing power with the Bureau of Labor Statistics cost-of-living index, the decline to 1932 is found to have been fully a fourth.

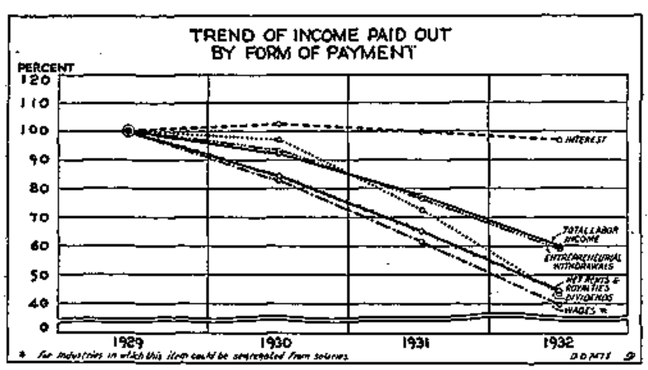
The shares in the total income going to labor, entrepreneurs, and property owners are presented in table 2. Salaries and wages and other labor income (compensation for injuries and pensions) accounted for 65 percent of the total in 1929. The "withdrawals of individual entrepreneurs" is a term used to cover such individuals as farmers, small storekeepers, and the like, who combine in a single person management and labor, and sometimes landlord and capitalist. This section of the national income, which cannot segregate the





return for labor on the part of the individual and the return for his investment and enterprise, accounted for 15 percent. Between 1929 and 1932 both of these shares declined somewhat as a proportion of the total paid out. Interest and dividend payments combined accounted for another 15 percent of the total in 1929, while net rents and royalties made up the remaining 5 percent. The interest and dividend totals include a correcting item adjusting for the net international flow as between the United States and other countries.

The total movement of income distributed obscures some very significant differences in trends among the different types of payment. Disbursements in the form of salaries and wages and other labor income declined about 40 percent from 1929–32, while payments distributed to property owners in the form of interest and dividends fell off only 30 percent in this period. Entrepreneurial withdrawals declined by about



the same extent as salaries and wages. The trend in this latter item is strongly influenced by the income of farmers, who account for over half of all individual entrepreneurs and almost half of total entrepreneurial income.

In the industries for which salaries paid and wages paid could be separated—namely, manufacturing, mining, construction, and some branches of transportation—there was a greater rate of decline than in the total of these items for all industries; but the separate trends are perhaps representative of the difference in the behavior of these items, and afford an interesting comparison. In the 4 years under review, salaries paid in these industries fell off 40 percent, while wages were curtailed to the extent of 60 percent. Reduction in the salary item appeared much later in the depression than did the decline in wages.

An even more pronounced divergence is noticeable in the movements of dividend and interest payments. Interest, which by nature is a more stable type of claim upon income produced, has recorded a very small decline, occurring primarily in 1932. Dividend payments, on the other hand, after declining slightly in 1930 fell off more rapidly in later years than did salaries and wages paid.

A considerable portion of the decline in salaries and wages paid since 1929 has been due of course to unemployment rather than the reduction of salary and wage rates. In the manufacturing industry, for example, total salaries and wages paid declined 54 percent between 1929 and 1932. Employment in this industry fell off, however, about 37 percent in this period, so that the average salary and wage received by those still on the industry's pay rolls showed a decline of only 26 percent.

A study of the comparative declines in net income originating in, and distributed by, the various industries bears out the observation, already suggested by data relative to employment and the volume of business, that the most drastic contraction since 1929 has taken place in the producers' or durable goods industries. The greatest decline registered took place in the construction industry, in which activity had already started to slacken before 1929; income paid out in this industry in 1932 was only 28 percent of the 1929 volume. The mining industry, which produces goods mainly for industrial consumption or further industrial elaboration, paid out in 1932 only 40 percent of the 1929 amount. In manufacturing the level in 1932 was about 45 percent below that for 1929, with the greatest falling off in the heavy goods branches. These data compare with a total falling off of only 40 percent for all industries combined.

Industries which made a better than average record in the general downward tendency were primarily those serving consumers directly, and particularly those whose revenues were of a monopoly type and not subject to the full force of competitive operation. The various Government units, when considered as a whole, showed a slight increase in annual income distributed from 1929 to 1932, with an expansion of employment and salaries paid and of bonded indebtedness and interest payments. The electric light and power industry, with rather inflexible rate structures and a relatively stable demand, suffered a loss of only about 5 percent in gross income, and income paid out declined less than 8 percent by 1932, after increasing in 1930.

The complete report from which the above data are taken presents over 200 tables of detailed analysis and will be published as a Senate document. When printed, the study will be available from the Superintendent of Documents, Government Printing Office, Washington, D.C.